

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL NOTE**

HB 71

January 31, 2013

SUMMARY OF BILL: Increases the amount of initial income exempt from the Hall Income Tax (HIT), from \$1,250 for single filers to \$2,000 during calendar year 2014, \$3,000 during calendar year 2015, and \$4,000 on or after January 1, 2016, and from \$2,500 for joint filers to \$4,000 during calendar year 2014, \$5,000 during calendar year 2015, and \$6,000 on or after January 1, 2016. Increases the maximum allowable income exemption levels, for taxpayers 65 years of age or older, from \$26,200 for single filers to \$30,000 during calendar year 2015, and \$35,000 on or after January 1, 2016, and from \$37,000 for joint filers to \$50,000 during calendar year 2014, \$60,000 during calendar year 2015, and \$70,000 on or after January 1, 2016. Holds local governments harmless from the loss of revenue occurring as a result of this bill and requires any allocations made to local governments due to the hold harmless provision be allocated from the general fund.

ESTIMATED FISCAL IMPACT:

On January 24, 2013, a fiscal note was issued estimating a fiscal impact as follows:

*Decrease State Revenue – Net Impact – \$5,503,900/FY14-15
\$10,108,300/FY15-16
\$14,310,200/FY16-17 and Subsequent Years*

*Increase State Expenditures – \$3,488,700/FY14-15
\$6,407,200/FY15-16
\$9,070,700/FY16-17 and Subsequent Years*

*Increase Local Revenue – Net Impact – \$131,300/FY14-15
\$241,100/FY15-16
\$341,300/FY16-17 and Subsequent Years*

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Due to a miscalculation, this impact was in error. This corrected fiscal note takes into account the requirement that no portion of sales tax revenue derived from two previous sales tax increases, 0.5 percent (effective April 1, 1992) and 1.0 percent (effective July 15, 2002), is to be distributed to the local government. Based on this information, the estimated fiscal impact is:

(CORRECTED)

Decrease State Revenue – Net Impact – \$5,500,700/FY14-15

\$10,102,400/FY15-16

\$14,301,800/FY16-17 and Subsequent Years

Increase State Expenditures – \$3,488,700/FY14-15

\$6,407,200/FY15-16

\$9,070,700/FY16-17 and Subsequent Years

Increase Local Revenue – Net Impact – \$128,100/FY14-15

\$235,200/FY15-16

\$333,000/FY16-17 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given the tax changes in this bill shall be applied to tax years beginning with tax year 2014, and assuming that 100 percent of HIT owed for tax year 2014 is collected no later than June 30, 2015, the first year impact by this bill will be FY14-15. This collection pattern is assumed to remain constant into perpetuity.
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The current Fiscal Review Committee estimate for HIT collections in FY13-14 is \$200,070,000. This number is assumed to remain constant in subsequent years in absence of this legislation.
- According to the Department of Revenue, the proposed increases in the amount of initial income not taxable and the proposed increases in the exempted income levels for individuals age 65 and over will result in a 4.65 percent decrease in HIT collections in FY14-15, an 8.54 percent decrease in FY15-16, and a 12.09 percent decrease in FY16-17 and each year thereafter. The Fiscal Review Committee staff does not have access to


the data and information upon which these calculations are based and cannot independently verify their accuracy.

- Pursuant to Tenn. Code Ann. § 67-2-119(a), the state retains 62.5 percent of HIT revenue; local governments are apportioned 37.5 percent.
- Local governments shall be held harmless and will be reimbursed for the loss of revenue resulting from passage of this bill.
- The decrease in HIT revenue in FY14-15 is estimated to be \$9,303,255 (\$200,070,000 x 4.65%).
- The decrease in HIT revenue for the state in FY14-15 is estimated to be \$5,814,534 (\$9,303,255 x 62.5%); the increase in state expenditures to hold local governments harmless is estimated to be \$3,488,721 (\$9,303,255 x 37.5%).
- The increase in state sales tax revenue in FY14-15 attributable to Hall tax savings being spent in the economy on other sales-taxable goods and services is estimated to be \$325,614 (\$9,303,255 x 50.0% x 7.0%); the increase in local option sales tax revenue is estimated to be \$116,291 (\$9,303,255 x 50.0% x 2.5%).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of all state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% [(5.5%/7.0%) x 4.603%].
- The increase in local revenue pursuant to the state-shared allocation in FY14-15 is estimated to be \$11,777 (\$325,614 x 3.617%).
- The net increase in state sales tax revenue in FY14-15 is estimated to be \$313,837 (\$325,614 - \$11,777).
- The net increase in local sales tax revenue in FY14-15 is estimated to be \$128,068 (\$116,291 + \$11,777).
- The total decrease in state revenue in FY14-15 as a result of this bill is estimated to be \$5,500,697 (\$5,814,534 - \$313,837).
- The decrease in HIT revenue in FY15-16 is estimated to be \$17,085,978 (\$200,070,000 x 8.54%).
- The decrease in HIT revenue for the state in FY15-16 is estimated to be \$10,678,736 (\$17,085,978 x 62.5%); the increase in state expenditures to hold local governments harmless is estimated to be \$6,407,242 (\$17,085,978 x 37.5%).
- The increase in state sales tax revenue in FY15-16 attributable to Hall tax savings being spent in the economy on other sales-taxable goods and services is estimated to be \$598,009 (\$17,085,978 x 50.0% x 7.0%); the increase in local option sales tax revenue is estimated to be \$213,575 (\$17,085,978 x 50.0% x 2.5%).
- The increase in local revenue pursuant to the state-shared allocation in FY15-16 is estimated to be \$21,630 (\$598,009 x 3.617%).
- The net increase in state sales tax revenue in FY15-16 is estimated to be \$576,379 (\$598,009 - \$21,630).

- The net increase in local sales tax revenue in FY15-16 is estimated to be \$235,205 (\$213,575 + \$21,630).
- The total decrease in state revenue in FY15-16 as a result of this bill is estimated to be \$10,102,357 (\$10,678,736 - \$576,379).
- The recurring decrease in HIT revenue in FY16-17 and subsequent years is estimated to be \$24,188,463 (\$200,070,000 x 12.09%).
- The recurring decrease in HIT revenue for the state in FY16-17 and subsequent years is estimated to be \$15,117,789 (\$24,188,463 x 62.5%); the recurring increase in state expenditures to hold local governments harmless is estimated to be \$9,070,674 (\$24,188,463 x 37.5%).
- The recurring increase in state sales tax revenue in FY16-17 and subsequent years attributable to Hall tax savings being spent in the economy on other sales-taxable goods and services is estimated to be \$846,596 (\$24,188,463 x 50.0% x 7.0%); the recurring increase in local option sales tax revenue is estimated to be \$302,356 (\$24,188,463 x 50.0% x 2.5%).
- The recurring increase in local revenue pursuant to the state-shared allocation in FY16-17 and subsequent years is estimated to be \$30,621 (\$846,596 x 3.617%).
- The net recurring increase in state sales tax revenue in FY16-17 and subsequent years is estimated to be \$815,975 (\$846,596 - \$30,621).
- The net recurring increase in local sales tax revenue in FY16-17 and subsequent years is estimated to be \$332,977 (\$302,356 + \$30,621).
- The total recurring decrease in state revenue in FY16-17 and subsequent years as a result of this bill is estimated to be \$14,301,814 (\$15,117,789 - \$815,975).
- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state's population increases as a result of reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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